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FM AMEMBASSY BAKU  
TO RUEHC/SECSTATE WASHDC 4757  
INFO RUCNCIS/CIS COLLECTIVE  
RUEHAK/AMEMBASSY ANKARA 2638  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEHBS/USEU BRUSSELS

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SIPDIS

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DEPT FOR EUR/CARC  
DEPT PASS TO TDA FOR STEIN, EXIM FOR GLAZER  
ANKARA FOR FCS  
COMMERCE FOR 4231 ITA/MAC/ORUE FOR DSTARKS  
COMMERCE FOR 3004 ITA/FCS/ ADVOCACY FOR ACHAMS-EDDINE

E.O. 12958: N/A

TAGS: [ECON](#) [EINV](#) [ETRD](#) [ENRG](#) [EFIN](#) [AJ](#)

SUBJECT: AZERBAIJAN COMMERCIAL UPDATE, January 15, 2008 - January 31, 2008

11. SUMMARY: This information is drawn primarily from the Azerbaijani local press, and has not been checked for accuracy. The opinions and policies expressed in this report are those of the authors, not the U.S. Government. END SUMMARY.

- VAT RATE MAY BE REDUCED
- KAPITAL BANK TO BE FULLY PRIVATIZED
- MASALLI-ASTARA HIGHWAY TO BE RECONSTRUCTED
- ADB TO FINANCE GANJA BYPASS
- PUBLIC UTILITIES RECONSTRUCTION PROJECTS
- CASPAR BUYS A NEW RUSSIAN TANKER
- "KHAZARINVEST" TO MANAGE POWER DISTRIBUTION
- AZERIGAS AND SOCAR TO BUILD GAS-PROCESSING PLANTS
- AZERBAIJAN TO IMPORT MERCEDES TAXI CABS
- AZERENERGY TENDER FOR ELECTRICITY TRANSMISSION LINE
- CASPIAN OIL FLEET TO HAVE THREE SHIPS REPAIRED
- BAKU SUBWAY TENDER FOR NASIMI STATION

12. VAT RATE MAY BE REDUCED  
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The Minister of Taxation announced possible plans to lower the value added tax (VAT) in 2009. The current VAT rate is 18 percent.

13. KAPITAL BANK TO BE FULLY PRIVATIZED  
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The Azerbaijani State Property Committee announced an auction to sell 85 percent of the remaining 50 percent state shares in Kapital Bank. Offers will be accepted until March 31, 2008, with evaluation carried out on April 3, 2008. The remaining 15 percent of the 50 percent state shares will be sold to the staff of the bank. In 2007, three local businesses won the auction for the first 50 percent of state shares: Khalg Bank and ATA Bank each got 20 percent, and AzerSun Holding bought 10 percent. After privatization, the International Bank of Azerbaijan will remain the only majority-state-owned bank in Azerbaijan.

14. MASALLI-ASTARA HIGHWAY TO BE RECONSTRUCTED  
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The Government of Azerbaijan and the Asian Development Bank (ABD) signed a lending agreement for USD 200 million to finance reconstruction of the 59-km Masalli - Astara highway. This is part of the USD 500 million multi-tranche finance facility the ADB Board of Directors approved in September 2007. The Ministry of Transportation will be the customer with the state "AzerYolServis"

roads agency executing the project. The new four-lane highway will be 27.5 meters wide.

#### 15. ADB TO FINANCE GANJA BYPASS

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ADB and the Ministry of Transportation have reached a preliminary agreement to expand funding of the highway projects to add USD 50-60 million for the Ganja bypass. Reconstruction of the Ganja bypass will be a part of the Ganja-Georgia highway, reconstruction of which is expected to be launched in the near future.

#### 16. PUBLIC UTILITIES RECONSTRUCTION PROJECTS

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The state water utility AzerSu has announced government plans to reconstruct the water utility infrastructure in 10 regions: Ali-Bayramli, Barda, Neftchala, Salyan, Khachmaz, Yevlakh, Khizi, Gusar, Gobustan, and Naftalan. The project will be co-financed by the Japan Bank for International Cooperation (JBIC). A Japanese consultant has completed feasibility studies for five regions. The remaining feasibility studies will be financed by a JBIC grant. AzerSu expects construction works to last from 2008 through 2012. AzerSu also plans to upgrade water utility systems of many other regions, a project to be financed with a World Bank loan.

#### 17. CASPAR BUYS A NEW RUSSIAN TANKER

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Russian Nizhegorod Shipbuilding Plant signed a contract with the Caspian Shipping Company (CASPAR) to build a new oil tanker. The tanker will be delivered in October 2008. The new tanker will be used to transport oil and oil products. The Nizhegorod Shipbuilding

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Plant also built the "Heydar Aliyev," "Babek," "Shah Ismayil Khatai," "Koroghlu," and "Dede Gorgud" tankers, delivered in 2006.

#### 18. KHAZARINVEST TO MANAGE POWER DISTRIBUTION

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The local "KhazarInvest" won a tender by the State Property Committee to manage electrical power distribution networks of the cities of Sumgayit and Sheki. Khazarinvest committed to invest AZN 85 million into the Sumgayit network and USD 11 million into the Sheki network, to maximize collection and to fully pay for the energy it will buy from the state monopoly "AzerEnerji." Unlike previous arrangements (the now-defunct Turkish-Azerbaijan joint venture "Barmek"), the Government will keep the ownership of assets. Khazarinvest will manage the networks for five years with an option to extend the contracts afterwards.

#### 19. AZERIGAS AND SOCAR TO BUILD GAS-PROCESSING PLANTS

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The state owned "AzeriGas" and SOCAR are discussing plans to cooperate and install new equipment and build mini gas-processing plants in Azerbaijan.

#### 10. AZERBAIJAN TO IMPORT MERCEDES TAXI CABS

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The Ministry of Transportation announced plans to import three thousand two hundred S-class Mercedes cabs to Baku. The first shipment will include six hundred cars. All cars will be equipped with meters and GPS devices and will be connected to the new intelligent traffic control system the Ministry is planning to install in Baku. Once vehicles are delivered, the Ministry of Transportation will request the Tariff Council to set meter rates.

#### 11. AZERENERGY TENDER FOR ELECTRICITY TRANSMISSION LINE

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Azerenergy JSC has invited bids to choose a contractor for the AzTES-Imishli electricity transmission line, a project of KFW (a German bank). The line (180 km long) will be 330 kilovolts. It

will connect the Azerbaijan Thermoelectric Power Station (AzTES) with the district center of Imishli, whose electricity substation will be repaired and upgraded. The bids will be unsealed on February 29 at 15.00. For more information contact at: 530-11-67 or 490-09-83.

#### 12. SOCAR TENDER FOR SHIP REPAIRS

The SOCAR Oil Fleet invites bids to receive equipment and spares to repair the General Assadov, Kur and Chinghiz Mustafayev ships. The office is at 13 Khojaly Avenue, Baku. Deadline: February 28, 2008. The bids will be unsealed on March 7 at 11.00. For more information contact at: 490-20-26.

#### 13. BAKU SUBWAY TENDER FOR NASIMI STATION

The Baku Underground has announced a public tender for overland groundwork at the Nasimi Station under construction at Mammadova Street. The application deadline is February 21. Candidates should submit their bids by February 29. The bid opening will be held on March 3. The contact number is (+994 12) 490-02-46. First opened in 1967, the Baku Underground now operates 20 stations. 170 million people have used Baku underground Metro through the past 5 years.

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